

Paying for your health premiums with pre-tax dollars

Your health premiums are paid with pre-tax dollars

Internal Revenue Service code Section 125 allows your employer to deduct money from your paycheck before certain payroll taxes and your income tax are calculated. This rule allows for deductions, including:

- Monthly premiums for your medical coverage, and
- The state's dependent care program.

Why should I pay my monthly health premiums with pre-tax dollars?

While the difference is not very noticeable, you take home more money because taxes are calculated *after* the premium is deducted. By paying for your coverage this way, you reduce your taxable income, which lowers your taxes and saves you money.

Do I need to sign up for a Section 125 deduction?

No. Your personnel, payroll, or benefits office does this automatically unless you sign the Section 125 [waiver form](#), saying you do **not** want your health premiums deducted from your paycheck before taxes.

Can I change my mind about participating in a Section 125 deduction?

Yes, but on a limited basis. You can only change your Section 125 choice:

- During the annual enrollment period, and
- When there is a change in family status, such as marriage, establishment or termination of a qualified same-sex domestic partnership, divorce, addition of a new child, or removal of a child from your coverage who has reached the maximum age limit.

Your employer may also remove you from the Section 125 plan, with notice, if necessary to prevent excess tax deferral.

When would it benefit me *not* to have a Section 125 deduction?

If you have your deductions taken on a pre-tax basis under Section 125, it lowers your salary base used to calculate these benefits:

Social security—The Section 125 plan reduces your social security salary base (if your base is under the \$87,900 maximum), so you are saving money now by not fully paying social security taxes. If you are near retirement age and have your health premiums deducted pre-tax, your lifetime social security benefit would be calculated using the lower salary.

Unemployment compensation—The Section 125 also reduces your salary base used to calculate unemployment compensation.

To waive your Section 125 option, complete the [waiver form](#) and submit it to your agency's personnel, payroll, or benefits office.

Where can I get more information about Section 125?

For advice on your individual situation, you should talk to a qualified financial planner or your local Social Security Office.